STATE OF SOUTH CAROLINA

BEFORE THE PUBLIC SERVICE COMMISSION

DOCKET NO. 2018-2-E

In the Matter of: Annual Review of Base Rates for Fuel Costs for South Carolina Electric & Gas Company	))))))))	**PETITION FOR REHEARING OR RECONSIDERATION**

INTRODUCTION

The South Carolina Coastal Conservation League ("CCL") and Southern Alliance for Clean Energy ("SACE") (collectively, the "Conservation Groups") respectfully petition the Public Service Commission of South Carolina ("Commission") for rehearing or reconsideration of its May 2, 2018 Order Approving Fuel Costs (the "Order"). More specifically, the Conservation Groups request a rehearing or reconsideration of the Commission's determinations regarding South Carolina Electric and Gas Company's ("SCE&G" or the "Company") proposal to completely eliminate avoided capacity payments to qualifying facilities.

The Conservation Groups respectfully submit that the Commission's elimination of avoided capacity payments fails to comply with S.C. Code Ann. § 58-27-810, which states that every rate "made, demanded or received by any electrical utility … shall be just and reasonable." S.C. Code Ann. § 58-27-810. Conservation Groups further submit that the Company's avoided cost calculations and resulting PR-1 and PR-2 rates fail to comply with regulations implementing the Public Utility and Regulatory Policies Act ("PURPA") requiring rates that are "just and reasonable," "in the public interest," and do "[n]ot discriminate against qualifying cogeneration and small power production facilities." 18 C.F.R. § 292.304(a). Lastly, the Conservation Groups respectfully request that the Commission reconsider its finding with respect to which party carries the burden of demonstrating reasonableness. Under South Carolina law, utilities have the burden to prove that they made decisions that result in reasonable fuel costs, including avoided costs under PURPA. *Hamm v. S.C. Pub. Serv. Comm'n,* 309 S.C. 282, 422 S.E.2d 110 (1992). The Commission's Order appears to place this burden on the intervenors rather than the utility, which is inconsistent with South Carolina law.

The Conservation Groups' interest in this proceeding and petition for rehearing or reconsideration is to ensure accurate and fair valuation of avoided costs and the related tariffs proposed by the Company. CCL is a nonprofit organization whose mission is to protect the natural environment of the South Carolina coastal plain and to enhance the quality of life in their communities by working with individuals, businesses and government to ensure balanced solutions. CCL supports the development of energy policy that is in the public interest of South Carolinians. SACE is a nonprofit organization whose mission is to promote responsible energy choices that create global warming solutions and ensure clean, safe and healthy communities throughout the Southeast. SACE and its members are interested in promoting greater reliance on clean energy resources to meet the South's energy needs. CCL and SACE have members from across the State, including members who receive electric service from the Company and are impacted by the decisions made by the Commission regarding renewable energy and avoided cost determinations that influence the future of renewable energy investment in South Carolina.

PROCEDURAL BACKGROUND

This annual fuel cost proceeding began with the Notice and Filing and Hearing Prefile dates and with a letter dated October 4, 2017 from the Commission Clerk's Office instructing the Company to notify affected customers and to publish a Notice of Hearing and Prefile Testimony Deadlines ("Notice") in newspapers of general circulation in the area affected by the Commission's annual review of the Company's fuel purchasing practices and policies on or before January 5, 2018. On December 5 and December 15, 2017, the Company filed affidavits demonstrating compliance with these requirements.

Petitions to Intervene were received from the South Carolina Energy Users Committee ("SCEUC"), the South Carolina Coastal Conservation League ("CCL"), the Southern Alliance for Clean Energy ("SACE"), the South Carolina Solar Business Alliance, LLC ("SBA"), Southern Current, LLC ("Southern Current"), and CMC Steel South Carolina ("CMC Steel"). The Petitions to Intervene of SCEUC, CCL, SACE, SBA, Southern Current, and CMC Steel were not opposed by SCE&G and no other parties sought to intervene in this proceeding. The South Carolina Office of Regulatory Staff ("ORS") is automatically a party pursuant to S.C. Code Ann. § 58-4-10(B) (2015).

The Commission convened a hearing on this matter on April 10 through 11, 2018, with the Honorable Swain E. Whitfield, Chairman, presiding. SCE&G was represented by K. Chad Burgess, Esquire, Matthew W. Gissendanner, Esquire, and Benjamin P. Mustian, Esquire. SCEUC was represented by Scott Elliott, Esquire. SBA was represented by Richard L. Whitt, Esquire, and Benjamin L. Snowden, Esquire. Southern

Current, LLC was represented by Richard L. Whitt, Esquire. CCL and SACE were represented by Katie C. Ottenweller, Esquire. CMC Steel and its counsel of record did not appear at the hearing. Andrew Bateman, Esquire and Jenny R. Pittman, Esquire represented ORS. In this Order, ORS, SCEUC, SBA, Southern Current, LLC, CCL, SACE, CMC Steel, and SCE&G are collectively referred to as the "Parties" or sometimes individually as a "Party."

Through their personal appearances, SCE&G presented the direct testimonies and exhibits of George Lippard III, Henry E. Delk, Jr., Michael D. Shinn, J. Darrin Kahl, John H. Raftery, Joseph M. Lynch, Ph.D., and Allen W. Rooks, and ORS presented the direct testimonies and exhibits of Michael Seaman-Huynh, Gaby Smith, Sarah Johnson, and Brian Horii.[1] Through their personal appearances, SBA presented the direct testimony and exhibits of Ben Johnson, Ph.D, and CCL and SACE presented the direct testimony and exhibits of Devi Glick.[2] Southern Current, SCEUC, and CMC Steel did not present witnesses at the hearing.

In response to the direct testimony of ORS Witness Seaman-Huynh, SCE&G presented the rebuttal testimony and exhibits of Witness Rooks. In response to the direct testimony of ORS Witness Horii, SBA Witness Johnson, and CCL and SACE Witness Glick, SCE&G presented the rebuttal testimony and exhibits of Witness Lynch. ORS filed surrebuttal testimony and an exhibit of Witness Horii, SBA filed surrebuttal

[1] Prior to the hearing and without objection from the remaining parties, the Commission granted SCE&G and ORS permission to utilize panels for the presentation of witnesses. SCE&G Witnesses Lippard and Delk were presented in the first panel for the Company; Witnesses Shinn and Kahl were presented in the second panel; and Witnesses Raftery, Lynch, and Rooks were presented in the third panel. ORS Witnesses Seaman-Huynh and Smith were presented in the first panel; Witnesses Johnson and Horii were presented in the second panel.
[2] The Parties stipulated into the record the testimony and exhibits of CCL and SACE Witness Glick.

testimony of Witness Johnson, and CCL and SACE filed surrebuttal testimony and exhibits of Witness Glick.

The Commission issued Order 2018-322 on April 30, 2018, and issued revised Order 2018-322(A) ("the Order") on May 2, 2018. The Order approved the Company's proposed fuel cost factors, avoided cost calculations, PR-1 and PR-2 tariffs, and 2018 net energy metering solar valuation update. The Order, specifically as it relates to approval of the Company's avoided cost calculations, rates in the PR-1 and PR-2 tariff, and 2018 NEM update is the subject of this petition for rehearing or reconsideration.

APPLICABLE LAW

South Carolina Fuel Clause Provisions

S.C. Code Ann. § 58-3-140(A) vests the Commission with the "power and jurisdiction to supervise and regulate the rates and service of every public utility in this State…" "*Every* rate made, demanded or received by any electrical utility … shall be *just and reasonable*." S.C. Code Ann. § 58-27-810 (emphasis added).

S.C. Code Ann. § 58-27-865 sets out the procedure for review and recovery of the Company's annual fuel costs. This section further provides for review and recovery of "incremental and avoided costs of distributed energy resource programs and net metering as authorized and approved under Chapters 39 and 40, Title 58, [which] shall be allocated and recovered from customers under a separate distributed energy component of the overall fuel factor that shall be allocated and recovered based on the same method that is used by the utility to allocate and recover variable environmental costs." S.C. Code Ann. § 58-27-865(A)(1). Incremental DER program costs are "all reasonable and prudent costs incurred by an electrical utility to implement a distributed energy resource program pursuant to Section 58-39-130 of Chapter 39, the S.C. Distributed Energy Resource Act." S.C. Code Ann. § 58-39-140. Recoverable incremental costs are capped "[f]or the protection of consumers and to ensure that the cost of DER programs do not exceed a reasonable threshold." S.C. Code Ann. § 58-39-150.

S.C. Code Ann. § 58-27-865 was amended by Act 236 in 2014 to clarify that "'fuel costs related to purchased power', as used in subsection (A)(1) shall include … avoided costs under the Public Utility Regulatory Policy Act of 1978, also known as PURPA." S.C. Code Ann. § 58-27-865(A)(2). Historically, SCE&G's PURPA avoided cost rates have been filed in Commission Docket No. 1995-1192-E; however, subsequent to Act 236 and the fuel clause revisions, SCE&G has sought approval in the fuel cost proceeding for its avoided cost rates, calculations, and methodology under Section 210 of the Public Utility Regulatory Policies Act of 1978, 16 U.S.C.A. § 824a-3. Section 210 of PURPA and relevant regulations promulgated by Federal Energy Regulatory Commission ("FERC") prescribe the responsibilities of the FERC and of state regulatory authorities, such as this Commission, relating to the development of cogeneration and small power production. *See* FERC Stats. & Regs. 30,128 (1980) in Docket No. RM79-55 (Order No. 69); 45 Fed. Reg. 12,214 (1980).

Pursuant to the Net Energy Metering ("NEM") Settlement Agreement approved previously by this Commission in Order No. 2015-194, Docket No. 2014-246-E, the Commission also approves each year the Company's calculation of the "costs and benefits of net metering and the required amount of the DER NEM Incentive" coincident in time with the Utility's filing under the fuel clause. Order No. 2015-194 at p. 22, para.

(g). The DER NEM incentive is computed based on an eleven-component NEM Methodology that includes "all categories of potential costs or benefits to the Utility system that are capable of quantification or possible quantification in the future." Order 2015-194 at p. 20, para. (e).

PURPA and FERC Regulations

Section 210 of PURPA requires the FERC to prescribe such rules as it determines necessary to encourage cogeneration and small power production, including rules requiring electric utilities to purchase electric power from, and to sell electric power to, cogeneration and small power production facilities. Under Section 210 of PURPA, cogeneration facilities and small power production facilities that meet certain standards can become "qualifying facilities" ("QFs"), and thus become eligible for the rates and exemptions established in accordance with Section 210 of PURPA.

Each electric utility is required under Section 210 of PURPA to offer to purchase available electric energy from cogeneration and small power production facilities that obtain QF status under Section 210 of PURPA. For such purchases, electric utilities are required to pay rates that are "just and reasonable," "in the public interest," and do "[n]ot discriminate against qualifying cogeneration and small power production facilities." 18 C.F.R. § 292.304(a).

The FERC regulations require that the rates electric utilities pay to purchase electric energy and capacity from qualifying cogenerators and small power producers reflect the cost that the purchasing utility can avoid as a result of obtaining energy and capacity from these sources, rather than generating an equivalent amount of energy itself or purchasing the energy or capacity from other suppliers. 18 C.F.R. § 292.101(b)(6). FERC delegated the implementation of these rules to the State regulatory authorities. State commissions may implement these rules by the issuance of regulations, on a case-by-case basis, or by any other means reasonably designed to give effect to the FERC's rules. FERC Stats. & Regs. 30,128 (1980) in Docket No. RM79-55 (Order No. 69).

South Carolina Law Governing Commission Decisions, Petitions for Reconsideration, and Burden of Proof

S.C. Code Ann. § 58-27-2100 provides that "[a]fter the conclusion of a hearing, the Commission shall make and file its findings and order with its opinion, if any. Its findings shall be in sufficient detail to enable the court on review to determine the controverted questions presented by the proceeding and whether proper weight was given to the evidence." S.C. Code Ann. § 58-27-2100.

Pursuant to S.C. Code Ann. § 58-27-2150, a party may apply to the Commission for a rehearing in respect to any matter determined in the proceeding. "The purpose of a petition for rehearing and/or reconsideration is to allow the Commission the discretion to rehear and/or reexamine the merits of issued orders pursuant to legal or factual questions raised about those orders by parties in interest, prior to a possible appeal." *In re: South Carolina Electric & Gas Company,* Order No. 2013-5 (Feb. 14, 2013). S.C. Code Ann. Regs. § 103-825(A)(4) prescribes the content of a petition for rehearing, which must include: "(a) The factual and legal issues forming the basis for the petition; (b) The alleged error or errors in the Commission order; [and] (c) The statutory provision or other authority upon which the petition is based."

The South Carolina Supreme Court employs a deferential standard of review when reviewing a Commission decision and will affirm that decision when substantial evidence supports it. *Porter v. S.C. Public Service Comm'n*, 333 S.C. 12, 20 (1998). Because Commission findings are presumptively correct, the party challenging a Commission order bears the burden of convincingly proving that the decision is clearly erroneous, or arbitrary or capricious, or an abuse of discretion, in view of the substantial evidence on the whole record. *Id.* Substantial evidence is relevant evidence that, considering the record as a whole, a reasonable mind would accept to support an administrative agency's action. *Id.*

This deferential standard of review does not mean, however, that the Court will accept an administrative agency's decision at face value without requiring the agency to explain its reasoning. *Id.* at 21.

The Commission must fully document its findings of fact and base its decision on reliable, probative, and substantial evidence on the whole record. *Id.* It must make findings which are sufficiently detailed to enable the Court to determine whether the findings are supported by the evidence and whether the law has been applied properly to those findings. *Id.*

Regarding factual findings, the Commission must make "explicit findings of fact which allow meaningful appellate review." *Seabrook v S.C. Public Service Comm'n,* 401 S.E.2d 672, at 674; 383 S.C. 493, at 497. Where material facts are in dispute, however, the administrative body must make specific, express findings of fact. *Porter v. SC Public Service Comm'n*, 507 S.E.2d 328, at 332, 333 S.C. 12, at 21.

An administrative agency is not required to present its findings of fact and reasoning in any particular format, although the better practice is to present them in an organized and regimented manner. *Porter*, 507 S.E.2d at 332, 333 S.C. at 21. However, a recital of conflicting testimony followed by a general conclusion is patently insufficient to enable a reviewing court to address the issues. *Id.*

Further, "previously adopted policy may not furnish the sole basis for the Commission's action." *Hamm v. S.C. Public Service Comm'n*, 422 S.E. 2d 110, at 114; 309 S.C. 282, at 289. Rather the policy must be applied to the substantial factual evidence of record. *Id.* The "expert" status of the Commission does not "diminish [the Commission's] duty to support its conclusions with factual findings…" *Seabrook v S.C. Public Service Comm'n*, 401 S.E.2d 672, at 674, 303 S.C. 493, at 497. Rather, it "*heightens* the duty" to ensure that the evidence presented is substantial. *Id.* (Emphasis added.)

Decisions of the Commission can be ruled arbitrary when it simply adheres to its past practice without attempting to explain that decision, and it cannot rely on factual findings that are simply incorrect. *Porter v S.C. Public Service Comm'n*, 333 S.C. at 26-27. For instance, the Commission has been reversed for finding that there is no such thing as a negative cash working capital requirement when other regulatory agencies and courts have discussed and applied the concept. *Id.* at 27.

Also, while South Carolina law does not require the Commission to use any particular price-setting methodology and the Commission has wide latitude to determine an appropriate rate-setting methodology, this does not mean that a particular methodology may not be more appropriate than another under a specific set of circumstances. *Heater of Seabrook v. S.C. Public Serv. Comm'n*, 478 S.E.2d 826, at 830, 324 S.C 56, at 64 (1996) (*citing Hamm v. S.C. Public Serv. Comm'n*, 309 S.C. 295 (1992)). The courts will not analyze in isolation whether the decision to use a particular methodology is supported by substantial evidence, and the Commission should employ a methodology tailored to the facts and circumstances of the case before it. *Id.*

In fuel cost cases, utilities have the burden to prove that they have made reasonable efforts to minimize fuel costs and that their decisions result in reasonable fuel costs. "The commission shall disallow recovery of any fuel costs that it finds without just cause to be the result of failure of the utility to make every reasonable effort to minimize fuel costs or *any decision of the utility resulting in unreasonable fuel costs . . . .*" S.C. Code Ann. § 58-27-865(F) (emphasis added). In making its decision, the Commission must give "due regard to reliability of service, economical generation mix, generating experience of comparable facilities, and minimization of the total cost of providing service." *Id.* Avoided costs are included in the definition of fuel costs. S.C. Code Ann. § 58-27-865(A)(1), (A)(2)(c); *see also Hamm v. S.C. Pub. Serv. Comm'n*, 291 S.C. 119, 122, 352 S.E.2d 476, 478 (1987). "Section 58-27-865(E)[3] requires the PSC to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the higher fuel costs to its customers. *See Public Service Comm'n of Maryland v. Baltimore Gas & Electric Company*, 60 Md.App. 495, 483 A.2d 796 (1984), *aff'd*, *123 305 Md. 145, 501 A.2d 1307 (1986); *Boston Edison Company v. Department of Public Utilities*, 393 Mass. 244, 471 N.E.2d 54 (1984); *Florida Power Corp. v. Cresse*, 413 So.2d 1187 (Fla.1982). The rule does not require the utility to show that its conduct was free from human error; rather, it must show it took reasonable steps to safeguard against error. *Virginia Electric and Power Company v. Division of Consumer Counsel*, 220 Va. 930, 265 S.E.2d 697 (1980).").

[3] What was Section 58-27-865(E) in 1987 is now Section 58-27-865(F).

The South Carolina Supreme Court explained in *Hamm v. S.C. Pub. Serv. Comm'n* how burden shifting works in rate cases. 309 S.C. 282, 422 S.E.2d 110 (1992). In rate cases—where the burden of proof of the reasonableness of costs that enter into a rate increase also rests with the utility—there is a presumption that a utility's expenses are "reasonable and incurred in good faith." *Id.* at 286 (citing *Missouri ex rel. Southwestern Bell Co. v. Public Service Comm'n of Missouri,* 262 U.S. 276, 43 S.Ct. 544, 67 L.Ed. 981 (1923) (Brandis, Jr., J., concurring); *West Ohio Co. v. Pub. Util. Comm'n,* 294 U.S. 63, 55 S.Ct. 316, 79 L.Ed. 761 (1935); *Boise Water Corp. v. Idaho Pub. Util. Comm'n,* 97 Idaho 832, 555 P.2d 163 (1976); *City of Chicago v. Illinois Commerce Comm'n,* 133 Ill.App.3d 435, 88 Ill.Dec. 643, 478 N.E.2d 1369 (1985) (modified by statute as noted in *People ex rel. Hartigan v. Illinois,* 117 Ill.2d 120, 109 Ill.Dec. 797, 510 N.E.2d 865 (1987); *Long Island Lighting Co. v. Pub. Serv. Comm'n,* 134 A.D.2d 135, 523 N.Y.S.2d 615 (1987); *City of Norfolk v. Chesapeake & Potomac Tel. Co.,* 192 Va. 292, 64 S.E.2d 772 (1951)). This presumption does not shift the ultimate burden of persuasion, but "shifts the burden of production on to the Commission or other contesting party to demonstrate a tenable basis for raising the specter of imprudence." *Hamm,* 309 S.C. at 286, 422 S.E.2d at 112. This burden of production can be met by evidence presented by intervening parties. *Id.* (citing *Long Island,* 523 N.Y.S.2d 615) (specifically discussing evidence obtained through discovery and presented by the Consumer Advocate as intervenor and by the Commission after its own investigation). Subsequent cases have noted that when an investigation by ORS "yields evidence that overcomes the presumption of reasonableness, a utility must further substantiate its claimed expenditures." *Utilities Servs. of S.C., Inc. v. S.C. Office of Regulatory Staff,* 392 S.C. 96, 110, 708 S.E.2d 755, 763 (2011). Intervenors and even non-party members of the public can also introduce evidence that "rais[es] the specter of imprudence" as to utility expenditures. *Id.* at 392 S.C. 96, 110-11, 708 S.E.2d 755, 763. The Commission is required to consider the evidence presented to it on the formal record, and can rely on this evidence to overcome the presumption of reasonableness. *Id.* at 392 S.C. 96, 111, 708 S.E.2d 755, 763.

The South Carolina Supreme Court in *Hamm* went on to note that "[t]he ultimate burden of showing every reasonable effort to minimize fuel costs remains on the utility," indicating that the same burden shifting scheme should be applied in fuel cost and rate cases alike. *Hamm*, 309 S.C. at 286-87, 422 S.E.2d at 112-13 (citing *Hamm v. South Carolina Pub. Serv. Comm'n and Carolina Power and Light Co.*, 291 S.C. 119, 352 S.E.2d 476 (1987)).

FACTS

At issue in this petition for reconsideration is the Company's decision to eliminate avoided capacity payments for solar power qualifying facilities. As in prior years, the Company used a Difference in Revenue Requirements ("DRR") method to determine its long-run avoided costs of over a 15-year planning horizon. Lynch Direct Testimony at p. 4. But in a significant departure from prior years, the Company proposed a new approach to valuing the utility costs avoided by purchasing power from solar power qualifying facilities. Every testifying intervenor critiqued the Company's new approach, particularly its decision to assign a zero value for avoided capacity.

The DRR method involves comparing the Company's revenue requirements between a base case and a change case. The base case is defined by SCE&G's "existing fleet of generators and the hourly load profile to be supplied by these generators," and it is based on the Company's latest Integrated Resource Plan ("IRP"). Lynch Direct Testimony at p. 4. "The change case is the same as the base case except that the hourly loads are reduced by a 100 MW profile. . . ." Lynch Direct Testimony at p. 4. Historically, the change case was a 100 MW reduction applied to all hours of the year. This year, SCE&G used a 100 MW reduction based on a solar profile to determine avoided cost rates for its PR-2 tariff. *Id.* at 14.

For its calculations and resource planning this year, the Company performed a new Reserve Margin Study, using the "component" method. Lynch Exhibit JML-2. Based on the results in that Study, SCE&G set a 14% summer peak reserve margin and a 21% winter peak reserve margin. Lynch Direct Testimony at p. 6. This is the first time that the Company has asserted a winter reserve margin. Hearing Tr. at E-89. The Company also performed a study "On Calculating the Capacity Benefit of Solar QFs," finding that "on more than 80% of the days during the winter months of October through March, solar has no effect on SCE&G's daily peak demand." *Id.* at 14-15. As described below, the intervening parties that submitted testimony found numerous problems with these studies and the 2018 IRP.

In a departure from its avoided cost calculations in prior years, the Company asserted that resources have capacity value only if they are available in both the summer and winter. *Id.* at 15. The Company further asserted that because solar does not provide capacity during the winter period and because it has only a "small impact in summer," the

Company is “unable to avoid any of its projected future capacity needs.” *Id.* at 15-18. SCE&G therefore proposed to set the avoided capacity costs of solar for the PR-2 and PR-1 rates, and in its 2018 NEM update, to zero. Despite this assertion, the Company’s 2018 IRP reports a firm capacity value of solar power at 35% for summer peaks. Hearing Tr. at E-186–189. As described by Witness Lynch, the Company’s long-run avoided capacity cost rates dropped from $21.34 per kW-year in 2016, to $6.35 per kW-year in 2017, to $0 per kW-year this year. The Company asserted that it “does not believe there will ever be enough capacity from [] small non-solar QFs to affect its resource plan and, therefore, the avoided capacity costs for PR-1 are zero.” Lynch Direct Testimony at p. 22. SCE&G also eliminated credits to non-solar QFs for their contribution to “critical peak hours.” *Id.*

All testifying parties took issue with SCE&G’s new approach to calculating avoided capacity value and its zeroing out of avoided capacity. Witness Horii testified that the Company has made a “dramatic change” in its approach by not providing any calculations of avoided capacity costs. Horii Direct Testimony at p. 8; *see also id.* at 10 (“Rather than simply updating inputs used to estimate the avoided capacity cost, SCE&G introduced a new concept of 100% winter capacity constraints as the basis for not calculating any avoided capacity cost.”); *id.* (“SCE&G bases its assertion of zero avoided capacity cost for solar projects on SCE&G being constrained by winter capacity needs, and unaided by summer capacity reductions. This is a substantial change from the methodology and inputs used by SCE&G to calculate prior PR-1 and PR-2 rates[.]”). Witness Horii testified that the Company asserts that new solar projects will not provide any capacity reductions so the Company does not provide any calculations for such projects, and he further testified that the Company failed to provide any calculation of avoided capacity costs for non-solar projects despite a request from ORS. Horii Direct Testimony at p. 9. Witness Horii recommended that SCE&G's position of zero avoided capacity costs be rejected at this time because SCE&G has "not adequately demonstrated that winter capacity needs are the same or greater than summer capacity needs." *Id.* at 9. Witness Glick similarly testified that SCE&G is using a "proposed new methodology." In contrast to the three-step methodology SCE&G employed in the past, in this year's docket, the Company assigns zero capacity value to solar, asserting that a resource must provide capacity in the winter and summer in order to provide any capacity value. Glick Direct Testimony at p. 6. Other problems pointed out by Witness Glick included: the Company artificially limited the future generation capacity projects or contracts that could be deferred or avoided by QFs; failed to include opportunity costs in its revenue requirements calculations, and failed to include a performance adjustment factor. *See, e.g.*, Glick Direct Testimony at pp. 12, 14, 16-21.

Intervening parties also specifically criticized: SCE&G's reliance on an unreviewed and unapproved IRP that utilizes an unoptimized Excel spreadsheet to determine the Company's capacity plan; SCE&G's flawed load and peak demand forecast; and SCE&G's inflated reserve margin, all of which compound the unreasonableness of the Company's zero capacity payments.

Multiple witnesses critiqued SCE&G's reliance on the generation additions in the IRP as the foundation for cost inputs that determine the actual costs a QF will avoid: "[SCE&G] relies upon assumptions and studies conducted in the 2018 IRP that have not been fully reviewed, vetted and/or approved by the Commission." Horii Direct

Testimony at p. 21. SBA Witness Johnson recommended rejecting the Company's proposal to base rates on a sub-optimal "Base" expansion plan that does not minimize revenue requirements. Johnson Direct Testimony at pp.40, 69-70; Surrebuttal Testimony at p. 8. In particular, he pointed out that SCE&G has not included additional Demand Side Management or power purchases that are specifically targeted at unusually cold winter mornings and therefore underestimates avoided costs. Johnson Surrebuttal Testimony at p. 12. Similar to Witness Johnson, Witness Glick criticized the Company's incorporation of a proposed 540 MW combined cycle plant in 2023 into its avoided cost calculations without accounting for possible energy efficiency and demand side management opportunities. She testified that this is particularly inappropriate because the Company has not tested a range of scenarios; has not modeled the cost of its resource plan; and has not allowed DERs to compete with or displace the CC or other higher cost resources. Glick Direct Testimony at p.13. At the hearing, Company Witness Lynch also admitted that the Company's plan does not reflect optimized or least-cost resource planning. Hearing Tr. at pp. E-202-204, 209. The Company did not present any results demonstrating that its proposed resource additions would be the least-cost additions, and the Company did not use any optimization or simulation software to make its long-term capacity plan. *Id.*

Witnesses Horii and Glick pointed to problems with the peak demand variability SCE&G forecasted in its 2018 IRP. Witness Horii testified that the regression equations SCE&G used to estimate peak demand today given historical peak days are incorrect and produce results that are contrary to engineering-based expectations. Horii Direct

Testimony at pp. 12-18.[4] Witness Horii testified that this and additional reserve margin errors call SCE&G's claim that it is now winter-peaking into question: "there will be some number of years over the next fifteen years where summer will be the driver of capacity need." Horii Surrebuttal Testimony at pp. 5-7; *see also* Glick Direct Testimony at p. 13 ("SCE&G's near term energy forecasts have a significant impact on avoided energy and capacity costs by driving the need for generation capacity in its resource plans.") Witness Glick testified that "SCE&G's year-on-year increase in the near term forecasted peak load [in the 2018 IRP] reflects a dramatic increase in demand, as compared to prior years' forecast . . . driving long-term planning decisions at a significant cost to ratepayers without justification." *Id.*

Witness Horii also noted that SCE&G's winter load forecast and peak values appear inconsistent and inexplicably high. Witness Horii stated that SCE&G's gross peak demand forecasts "are higher than what normal loads should be given typical 1% per year growth rates since 2016." Horii Direct Testimony at p. 10; *see also id*. at 10-11 ("I also believe the Company is forecasting summer and winter peak demands for future years in an inconsistent manner that creates a potentially false indication of higher capacity need for the winter season.") He noted that the Company's estimated gross territorial peak of 5,024 MW for winter 2018 is 388 MW higher than the winter 2017

[4] "SCE&G uses regression equations to estimate what peak demand would be on SCE&G's system today given the weather that occurred on historical peak days since 1991. . . . The winter shape [from this regression equation] has an upward curve, which is counter to engineering-based expectations. This upward curve also exacerbates the variation in peak demand, compared to the downward curve of summer predictions." Horii Direct at p. 14. The Company's approach goes against engineering-based expectations because the load cannot increase indefinitely with no leveling off. Eventually, "as weather becomes more extreme, "cooling [or heating, depending on the season,] equipment because more heavily used, but eventually [will] top out and cannot increase electricity usage any further." Horii Direct at p. 14. "As individual units top out, one sees diminishing increases in load as temperatures worsen." *Id*. The Company has not accounted for this leveling off of equipment usage and load in its winter season load variation analysis. The result is "an overly large estimate of winter variability for the winter season compared to the summer season." *Id.*

forecast and 256 MW higher than the actual 2017 winter peak, despite the fact that average growth over last four years has been 36.25 MW per year and the highest growth between years was 106 MW between 2014 and 2015. Horii Surrebuttal Testimony at p.8.

Witnesses Horii and Glick also criticized SCE&G's reserve margin study. Witness Glick noted that an unjustifiably high reserve margin increases costs for customers. She testified that if SCE&G's reserve margin were 17%—which is still a conservatively high margin compared to that of peer utilities—new large capacity additions could be delayed at least a year and a half. Overall costs to ratepayers would be lower. Glick Surrebuttal Testimony at p. 9. SCE&G's reserve margin was calculated using the component method, which is not the industry standard. *See* Horii Direct Testimony at p. 12. Witness Horii testified that, while the component method has been used by the Company historically and may have produced consistent results when the reserve margin methodology was not used to determine the difference in reserve margin requirements between the summer and winter season, "it is unclear if the component methodology is appropriate" for this purpose. Horii Surrebuttal Testimony at p. 9. He stated that the Loss of Load Expectation, Loss of Load Probability, and Expected Unserved Energy methods are commonly accepted in the industry. *Id.* at 10. Witness Horii pointed out that the reserve margin threshold should be applied to forecasts of average annual peaks rather than maximum annual peaks because the risk of higher peaks is already embedded in the threshold percentage (since it is the difference between the average annual peak and the maximum annual peak). Horii Direct Testimony at p. 19-21; Horii Surrebuttal Testimony at p. 15. Finally, Witness Glick stated that SCE&G's proposed winter reserve margin is substantially higher then peers Duke Energy Carolinas, Duke Progress, Southern Company, and Santee Cooper, each of which use a winter reserve margin between 12 and 17 percent. Glick Direct Testimony at p. 9. The Company looked solely at the relationship between load and weather to calculate the winter reserve margin. *Id.* at 10. By contrast, peer utilities utilize a more comprehensive methodology that balances reliability and customer costs. *Id.* at 11.

SCE&G's decision to eliminate PURPA avoided capacity value also eliminated the Net Energy Metering ("NEM") Distributed Energy Resource ("DER") avoided capacity value. Lynch Direct Testimony at p. 27. For the same reasons that the testifying witnesses opposed SCE&G's zero avoided capacity value, they opposed this change to the NEM DER values. Horii Direct Testimony at 23-24; Glick Direct

Testimony at p. 21.

Intervenors put forward several alternative proposals that the Commission could adopt rather than accept SCE&G's zero avoided capacity value. Witness Horii recommended that Commission either order: "the PR-2 capacity value be set at 19.5% of the avoided cost of per kW from a 100 MW change to SCE&G's base resource plan that excludes any non-committed future resources and reflects any planned plant retirements of firm capacity; or that SCE&G be ordered to provide an estimate of the long-run avoided capacity cost and the calculation for the long-run avoided capacity costs . . . ; or that the current capacity value be maintained for both PR-1 and PR-2 until a justified capacity value can be provided in the next rate update." ORS Proposed Order at 12; *see also* CCL and SACE Proposed Order at 14, 23, 36; Horii Direct at pp. 21-22. Witness Johnson recommended that the Commission require the Company to re-calculate capacity payments using the 80% / 20% summer/winter capacity weighting approved in previous dockets, using a year-round 14% reserve margin policy; and assigning a 50% capacity factor to solar resources. SBA Proposed Order at pp. 17-18.

ARGUMENT

I. Intervenors have raised the specter of imprudence, and SCE&G has not met its burden to prove its rates are reasonable.

Under South Carolina law, utilities have the burden to prove that they made decisions that result in reasonable fuel costs, including avoided costs under PURPA. The Order appears to place this burden on the intervenors rather than the utility. This approach is inconsistent with existing South Carolina law, and Conservation Groups respectfully request that the Commission reconsider this position set forth in the Order.

S.C. Code Ann. § 58-27-865(F) directs the Commission to "disallow recovery of any fuel costs that it finds without just cause to be the result of … *any decision of the utility resulting in unreasonable fuel costs*." (Emphasis added.) *See also* S.C. Code Ann. §§ 58-27-865(A)(1), (A)(2)(c)) (identifying PURPA avoided costs as fuel costs). In rate cases, the utility is afforded an initial presumption of reasonableness, but once that is challenged, the utility again bears the burden of demonstrating that its proposals are reasonable. This burden shifting was described by the South Carolina Supreme Court in *Hamm v. S.C. Pub. Serv. Comm'n*, 309 S.C. 282, 422 S.E.2d 110 (1992). The initial presumption is that the utility's expenses are "reasonable and incurred in good faith." *Id.*, 309 S.C. at 286, 422 S.E.2d at 122. However, once an intervening party or the Commission demonstrates a "tenable basis for raising the specter of imprudence," there is no longer a presumption of reasonableness and the burden shifts to the utility to "further substantiate its claim[s].” *Id.*; *Utilities Servs. of S.C., Inc. v. S.C. Office of Regulatory Staff*, 392 S.C. 96, 110, 708 S.E.2d 755, 763 (2011). The Commission is required to consider the evidence presented to it on the formal record, and can rely on this evidence to overcome the utility’s initial presumption of reasonableness. *Utilities Servs. of S.C., Inc. v. S.C. Office of Regulatory Staff*, 392 S.C. at 111, 708 S.E.2d at 763. According to the S.C. Supreme Court in *Hamm*, the “[t]he ultimate burden of showing every reasonable effort to minimize fuel costs remains on the utility,” indicating that the same burden shifting scheme should be applied in fuel cost and rate cases alike. *Hamm*, 309 S.C. at 286-87, 422 S.E.2d at 112-13.

The Order in this proceeding wrongly places the burden of proving reasonableness on the intervenors. According to the Order, “SCE&G’s proposal to set avoided capacity costs for its PR-1 and PR-2 rates at zero is reasonable at this time, in the absence of a viable alternative proposal being presented by any other party.” Order at p. 15.

As an initial matter, alternative proposals *were* provided by intervening parties. In particular, Office of Regulatory Staff Witness Horii gave a very specific alternative recommendation regarding the most contested issue in this proceeding, the Company’s zeroing out of avoided capacity for PURPA QFs:

> Q: Given the problems with SCE&G’s analysis, what do you recommend the Commission adopt for PR-2 Capacity Value?
>
> A: I recommend that the PR-2 capacity value be set at 19.5% of the avoided cost of per kW from a 100 MW change to SCE&G’s base resource plan that excludes any non-committed future resources and reflects any planned plant retirements of firm capacity.

Horii Direct Testimony at p. 21, Surrebuttal Testimony at p. 15. Witness Horii then provided a second option, that "SCE&G be required to provide an estimate of long-run avoided capacity cost and the calculation for the long-run avoided capacity costs," and that the other parties be provided an opportunity to evaluate those estimates. Horii Direct Testimony at p. 22. Witness Horii even provided a third alternative, "that the current capacity value be maintained for both PR-1 and PR-2 until a better capacity value can be provided in the next rate update." Horii Direct Testimony at p. 22, Surrebuttal Testimony at p. 16.

If by a "viable alternative proposal" the Commission intended that intervening parties should be required to put forth a fully quantified capacity value as an alternative to the Company's, the Commission is raising an impossible bar for intervenors to meet. First, intervenors have for years raised the concern to this Commission that the Company's use of the DRR method lacks transparency, which blocks intervenors from being able to model and present any alternative methods. *See, e.g.,* Conservation Groups' Petition for Rehearing or Reconsideration, Docket No. 2017-2-E, at p. 18 (May 5, 2017) (pointing out that "SCE&G has relied on the overly complex and opaque DRR method of calculating the capacity component of avoided cost rates") As a result, intervenors' only recourse is to request that the Company "re-run" its DRR model using inputs or methodological changes that the other parties recommend. As evidenced throughout this proceeding, the Company outright refuses to do so. Numerous parties requested that SCE&G quantify what capacity payments would be using previously-approved DRR methods at several points throughout the proceeding. Counsel for ORS confirmed at the hearing that ORS requested revised capacity cost data from the Company in discovery, which the Company refused to produce. Hearing Tr. at E-234. Conservation Groups filed a petition for an order in Docket 2017-2-E, requesting that the Commission require the Company to provide updated capacity rates under PR-2 based on prior approved methodology; this request was denied.[5] During the hearing itself, Conservation Groups again requested that this information be provided to the parties, in the form of a supplemental late filed exhibit. Hearing Tr. at p. E-230. This request was also denied. *Id*. at E-235. In summary, despite several opportunities, the Company has not yet been required to comply with parties' requests for this critical information. The fact that the Order approving SCE&G's zero capacity payment rested on intervenors' failure to produce alternative quantified capacity values is the very definition of unfairness, and rewards the Company for consistently stonewalling other parties in this proceeding. Placing such a burden on intervening parties fails to comply with S.C. law.

Notwithstanding these specific alternative proposals, the onus or burden is not on the intervening parties to provide alternative rates. Rather, the burden remains with the utility proposing rates to justify their reasonableness, based on substantial evidence. It is the utility, and not the intervenors, whose monopoly franchise is regulated by the Commission and that directly benefits from cost recovery gained by Commission approval of proposed rates. Particularly when intervenors raise a reasonable specter of imprudence, the burden is on the utility to demonstrate that its rates and resulting cost recovery are reasonable. There was ample testimony in this proceeding raising the specter of imprudence.

[5] *See* SCCCL and SACE Petition for an Order Requiring South Carolina Electric & Gas Company to Comply with Commission Order No. 2018-55 (March 21, 2018), filed in Docket No. 2017-2-E. The parties also filed a request for reconsideration of its petition, which was also denied.

Every testifying party, other than the utility, raised concerns about the utility's proposal to completely eliminate avoided capacity payments. The laundry list of problems with the Company's calculation include the following:

- Solar QFs can and do reduce the Company's capacity costs;
- The Company has not adequately demonstrated that its winter capacity need exceeds its summer capacity need;
- The Company's change from an 80/20 summer/winter capacity payment allocations to a 0/100 summer/winter capacity payment allocation has not been justified;
- The Company's proposal is contradicted by its own witness Lynch, who concedes that solar QFs have capacity value and can be used to meet the Company's summer capacity need over the planning period;
- The Company's proposal is contradicted by its own Integrated Resource Plan, which applies a capacity value to solar resources; and
- The Company's reliance on the Integrated Resource Plan is fundamentally flawed, due to the following:
    - The IRP is still being reviewed;
    - The Company has not optimized its plan;
    - The winter peak load forecast is overstated; and
    - The winter reserve margin is likewise too high.

The overwhelming pushback and expert testimony pointing to problems with the Company zeroing out capacity value is analogous to the rate of return issue decided in *Hamm v. S.C. Pub. Serv. Comm'n*, 309 S.C. 282, 422 S.E.2d 110 (1992). In *Hamm*, the

South Carolina Supreme Court ruled that SCE&G's proposal to earn a 13.25% rate of return on common equity was too high based on testimony from multiple experts' testimony in the proceeding. *Id.* 309 S.C. at 287-88, 422 S.E.2d at 113-14. Experts in *Hamm* testifying on behalf of the Consumer Advocate,[6] Department of the Navy, Commission Staff, and SCE&G all gave ranges of appropriate rates of return. *Id.* The Company sought a rate of return at the high end of these ranges, and the Supreme Court rejected that high rate based on the expert testimonies and the lack of substantial evidence to justify a rate at the top of the range. *Id.* Similarly in this proceeding, there is abundant testimony that the Company's approach to providing a zero capacity payment is unreasonable. All of the alternatives proposed would result in an avoided capacity value higher than zero, and SCE&G has not provided the evidence needed to overcome the problems with their approach raised by the intervenors through expert testimony.

Witnesses for the Conservation Groups, Office of Regulatory Staff, and the Solar Business Alliance all testified to the significant problems with the Company's zero-capacity value proposal, clearly raising the specter of imprudence and thus shifting the burden onto the Company to demonstrate that its proposal is in fact reasonable. As described below, the Company has failed to meet this burden.

II. SCE&G's elimination of avoided capacity payments is not reasonable and violates state and federal law.

Once the specter of imprudence is raised, the utility has the burden to prove that its rates, fuel costs, and expenditures are reasonable. SCE&G has failed to meet that burden, and the Conservation Groups respectfully request that the Commission issue a

[6] *Hamm* was decided prior to the creation of the Office of Regulatory Staff.

revised order finding that the Company has failed to meet its burden and requiring the Company to file revised PR-1 and PR-2 rates, and a revised 2018 NEM update.[7]

S.C. Code Ann. § 58-27-810 requires that every rate "made, demanded or received by any electrical utility … shall be just and reasonable." FERC regulations similarly require rates to be just and reasonable, in the public interest, and non-discriminatory against qualifying cogeneration and small power production facilities." 18 CFR § 292.304(a). The Company's PR-1 and PR-2 rates, by completely eliminating avoided capacity payments, fail to meet these state and federal requirements. The legal and practical problems were described in detail in Conservation Group's post-hearing brief, and are summarized below for the Commission's reconsideration.

A. The Company's proposal to eliminate capacity payments for QFs is unsupported, unjust, unreasonable, discriminatory, and not in the public interest.

The Company's proposal to completely eliminate avoided capacity payments for solar QFs violates state and federal law. Both South Carolina law and federal law require avoided cost rates to be just and reasonable. Avoided cost rates must also be non-discriminatory and in the public interest. Moreover, this Commission's decisions to approve rates must be based on substantial evidence. The Company has failed to provide the Commission with substantial evidence on this issue, and its proposal to eliminate avoided capacity payments should be rejected as unjust, unreasonable, discriminatory, and not in the public interest.

[7] The Company should also revise its 2018 NEM update to reflect the change to avoided capacity value.

1. The Company's refusal to compensate for capacity discriminates against QFs.

As a preliminary matter, while the Commission approved SCE&G's rates, it does not appear to address a significant disagreement between the parties with regard to the facts in evidence: whether the Company's zero capacity payments reflect a change in methodology, or just changed circumstances. Disregarding the facts laid out by intervenors, the Company claimed throughout the proceeding that it is not proposing a change in methodology at all in this proceeding, contending that it continues to use the same exact methodology that was approved by this Commission in past orders. Lynch Rebuttal at p. 18, lns. 16-17 ("SCE&G is using the same methodology as in previous years and as approved by the Commission."); Hearing Tr. at E-9-11, E-95, E-176-178; see also Lynch Rebuttal at p. 2, lns. 14-15 (the zero capacity cost "is a change in result, not a change in methodology."); *id.* at p. 2, lns. 9-10 ("SCE&G is using the same difference in revenue requirements ("DRR") methodology previously approved by the Commission.").

The Company's claim relies on the factually incorrect assertion that the Commission approves the Company's use of the DRR method *carte blanche*, without concerning itself with the myriad decisions that the Company makes about *how* to implement DRR. On the contrary, the Commission's determination of appropriate methodology extends far beyond the Company's over-arching method, be it peaker, proxy or DRR. In past orders, the Commission has addressed individually litigated issues concerning **specific elements** of the DRR method, such as the calculation of the appropriate generation capacity payment split between summer and winter seasons, Order No. 2017-246 at p. 23, the use of the number of critical peak hours in 2015 to calculate avoided capacity costs, Order No. 2016-297 at p. 20, and the reasonableness of assuming that certain future capacity can be included when calculating avoided capacity costs, Order No. 2016-297 at p. 17.

Contradicting itself, the Company concedes that Commission-approved "methodology" extends to the very changes it proposes to make in this proceeding. Under cross-examination, Witness Lynch admitted that SCE&G's decision to discontinue the 80/20 summer/winter capacity split is in fact a "pricing methodology." Hearing Tr. at p. E-183, ln. 14. This is consistent with his past testimony, which unequivocally states the Company's position that past practices, such as the 80/20 capacity split, constitute methodology that was previously approved by the Commission. *See, e.g.*, Docket No. 2017-2-E Hearing Tr. at p. E-181, Lynch Direct (stating that "consistent with the methodology approved by Commission Order No. 2016-297, SCE&G divides this avoided capacity cost between summer and winter with 80% being associated with the summer season and 20% being associated with the winter season."); Docket No. 2017-2-E Hearing Tr. at p. E-205 (referring to the 80/20 split: "this methodology was approved by the Commission in Order No. 2016-297"). The Company's lawyers also noted that SCE&G's filing in this year's docket constituted a change in methodology: ". . . the Company believed the Rate PR-2 based upon the previously approved methodology did not properly reflect SCE&G's avoided costs and therefore did not propose that rate in Docket No. 2018-2-E." Company's motion to dismiss and response in opposition to CCL and SACE's petition for an order to compel compliance, Docket No. 2017-2-E at p. 5.

Ignoring these facts, the Company claims that the extreme change in result to a zero capacity payment is simply due to changed circumstances. Lynch Rebuttal at p. 20, lns. 8-12. But the record—including admissions from the Company's own witnesses and lawyers—overwhelmingly repudiates that assertion. The Company is in fact proposing a dramatic shift in its methodology for compensating solar QFs: the complete elimination of capacity payments. Every other party that submitted testimony in this docket strongly objected to this change as unsound, unfounded, and counterfactual, and asked that it be rejected.

Not only did every other testifying party agree that this is a significant change in methodology, they also unequivocally found it to be one that the Company failed to support. *See* Horii Direct Testimony at p. 8, ln. 6-7 (emphasis added); *see also* Horii Direct Testimony at pp. 10, 21; ORS Witness Johnson Direct Testimony at p. 5; Glick Direct Testimony at p. 6; SBA Witness Johnson Surrebuttal Testimony at pp. 2-3.

Comparison of the actual methodologies used in this and past proceedings makes this change in approach plain. In prior years the Company has used a three step methodology where it: 1) calculated the avoided capacity value over a 15-year planning horizon comparing the difference in revenue requirements between the base case and the change case; 2) identified the set of critical peak hours where energy would have a capacity value on the system and spread the avoided capacity cost across those hours, assigning 80% of the annual capacity cost to the summer; and 3) calculated a single avoided cost value based on the production of a typical solar PV system. Glick Direct Testimony at p. 6. In contrast, in this year's docket, the Company simply assigns zero capacity value to solar, asserting that a resource must provide capacity in the winter and summer in order to provide **any** capacity value. Company Witness Lynch admits that in a departure from last year, the Company is no longer dividing avoided capacity costs between summer and winter. Instead, solar QFs receive zero payments for capacity, regardless of their capacity contribution during times of summer capacity need. Hearing Tr. at p. E-183, lns. 6-8.

In its Order, the Commission does not appear to address this significant question of fact, or weigh in on the appropriateness of the proposed change from an 80/20 seasonal allocation between summer and winter seasons to a 0/100 summer/winter allocation, despite the fact that this is a core underpinning of the Company's assertion of zero capacity value, and one that the Company never justified. Conservation Groups note that this change in allocation is different from simply accepting the Company's assertion that it is now winter-peaking, which at best would justify a reversal of seasonal allocation to 20/80 summer/winter.

The Company's refusal to compensate solar QFs for the capacity value they provide to the system is at odds with the record, and is contradicted by the Company's own IRP and by other experts' testimony in this docket. Simply, SCE&G has not met its burden to demonstrate that a payment of zero for capacity is justified or reasonable.

a. <u>The record demonstrates that solar QFs can and do reduce the Company's capacity costs.</u>

The Commission, in its Order, found that "[a] generating resource has to provide capacity in the winter as well as in the summer in order to avoid the need for capacity and thereby have capacity value . . . because additional solar does not provide capacity during the winter period, the Company is unable to avoid any of its projected future capacity needs from additional solar." Order at 15. Respectfully, Conservation Groups point out that this finding is not grounded in fact. It is undisputed that solar QFs can and do reduce the system's summer peaks. *See, e.g.*, Lynch Direct Testimony at pp. 17-18. For five entire months of the year, solar QFs impact peak demands on most days of the month and in all days during the months of June and July. Lynch Direct Exh. JML-4 ("On Calculating the Capacity Benefit of Solar QFs") at p. 5. Additionally, the Company has both a summer and winter capacity need over the 15-year planning period. *See* Lynch Direct Testimony at p. 23, lns. 9-10 (SCE&G's "need for capacity spans the entire year"); Hearing Tr. at p. E-189, ln. 6. It is uncontested that solar QFs will contribute to the Company's summer capacity need. In order to arrive at its conclusion that capacity payments to solar QFs are no longer appropriate, the Company asserts the illogical position that a single capacity resource must meet **both** winter and summer capacity in order to receive any capacity value at all. Under cross examination, however, Company Witness Lynch admits that this is a false choice: the Company **could** choose separate capacity resources to meet these seasonal capacity needs (for example, a winter peaking energy efficiency resource and a solar QF), and both capacity resources would in fact avoid costs. Hearing Tr. at p. E-189-190. On cross examination, in response to the question: "What would prohibit the company from choosing one capacity resource, such as a winter [demand side management] program, to meet its winter capacity need, and another capacity resource, like a solar qualifying facility, to meet its summer capacity needs?" Witness Lynch responded: **"Well, I would suppose, nothing."** *Id*. (Emphasis added.) The Company failed to present a rationale for moving away from its past allocation of capacity payments in both summer and winter periods – which in the past would compensate QFs for meeting capacity needs in winter months, even though it was summer peaking. The Commission, in its Order, does not justify its departure from past methodology, which historically provided payments for QFs that avoided capacity in *either* winter or summer seasons, regardless of the fact that the utility was summer-peaking, or explain why a change to winter-peaking would justify such a drastic change. Conservation Groups respectfully request that the Commission revisit this finding, and determine that the Company has not justified a 0/100 seasonal allocation; rather, the 80/20 allocation should continue in effect until further justification is provided.

b. The Company's proposal is contradicted by its own IRP.

The Company's 2018 IRP found that solar resources have a 35% capacity factor. Hearing Exh. 9, 2018 IRP at p. 40. This means, in SCE&G's analysis, 35% of solar's nameplate capacity is deemed by the Company to be firm capacity that can serve the system summer peak. And yet, in this proceeding, the Company is requesting that solar QFs receive no compensation for capacity contributions that they make—contributions that SCE&G's own IRP acknowledges. The Commission noted in its Order that "the Commission expects that the Company's Integrated Resource Plan will be consistent with all assertions and assumptions made in the calculation of avoided costs." Order at 16. However, in finding that reliance on the 2018 IRP is appropriate, the Order failed to address this blatant inconsistency.

c. All other testifying parties agree that SCE&G's capacity methodology is flawed and should be rejected.

ORS Witness Horii, CCL and SACE Witness Glick, and SBA Witness Johnson universally recommend that the Commission reject SCE&G's capacity methodology. *See, e.g.,* Witness Horii Direct Testimony at 9 (recommending that SCE&G's position of zero avoided capacity costs be rejected because SCE&G has "not adequately demonstrated that winter capacity needs are the same or greater than summer capacity needs"), *id*. at 22 (finding that the Company is relying on questionable "assumptions and studies conducted in the 2018 IRP."); Johnson Direct Testimony at pp. 40, 69-70; Surrebuttal Testimony at p. 8.

2. The Avoided Cost rates are flawed because they are based on a flawed Integrated Resource Plan.

The errors noted above are linked to the Company's 2018 Integrated Resource Plan, which the Company uses as the foundation for its avoided cost rates. At the hearing in this proceeding, the Conservation Groups raised their continuing objection to the Company's reliance on its 2018 IRP to determine avoided cost rates. State law requires substantial evidence for the Commission's decisions and requires that rates be just and reasonable. The 2018 IRP cannot be relied on as substantial evidence due the significant flaws contained in that document, including that it has not been reviewed; it fails to constitute "least cost," optimized planning; and it relies on the flawed winter peak load forecast and on a winter reserve margin that is too high. These errors in the IRP directly relate to the Company's justification for zeroing out capacity payments to QFs. In its Order, the Commission finds that "it is appropriate to use the most recently filed Integrated Resource Plan for purposes of avoided cost calculations in fuel proceedings," but does not explicitly address the myriad shortcomings with such reliance, including:

- The IRP is still being reviewed, and has not been subject to any independent review or oversight, *see* Horii Direct Testimony at p. 21;
- The IRP is non-binding on the Company, and is therefore open to unilateral changes by the Company, which materially impact avoided cost calculations in ways that impact rates for QFs, *see* Hearing Tr. at pp. E-199, lns. 14-17, E-200; and
- The IRP does not reflect optimized or least-cost resource planning, *see* Hearing Tr. at pp. E-202-204.

Company Witness Lynch's rebuttal testimony best illustrates the flaws with the Company's approach. He states that "[i]f SCE&G **has to** build a combined-cycle unit to meet its winter peak, but which also satisfies the need for summer capacity, **then the fixed costs are incurred**. In contrast, adding solar capacity, which only has an impact on capacity in the summer, does not avoid any of those **fixed costs**." Lynch Rebuttal at p. 41, lns. 19-21, p. 42, lns. 1-2 (emphases added). The Company has not in any way demonstrated that it has to, or is **even planning to,** build a 540 MW combined cycle unit in 2023. In fact, Lynch concedes that there are many ways to address winter and summer capacity needs independently. For example, demand side management resources could be used to meet rare winter peaking events while solar power is used to meet summer peak loads. Any "fixed" costs associated with the Company's hypothetical combined cycle are thus speculative and because they are clearly avoidable, some or all of them could be avoided by QFs that provide capacity to meet summer peak capacity needs. Assuming this combined cycle in the Company's "base case" is unavoidable thus arbitrarily minimizes QFs' ability to receive payment for capacity needs. The delay or avoidance of unapproved natural gas plants are the very definition of "avoidable" costs.

The Company cannot have it both ways: it cannot "bake in" capacity additions that it has not committed to, as a way to devalue energy and capacity from QFs, unless those additions are actual commitments that QFs can no longer avoid. The Company's claim that solar QFs will have no impact on its preferred-but-speculative resource plan answers the wrong question. The proper question is how QF power can avoid costs related to the Company's current and future capacity needs.

The Order appears to adopt the Company's position that solar QFs do not avoid specific future capacity additions as a rationale for zeroing out capacity payments, without addressing this significant flaw in the Company's position: that such a position hinges on an acceptance of certain capacity additions that have in no way been deemed prudent or committed to by the Company. Conservation Groups respectfully ask the Commission to find that these speculative "plans" for future capacity <u>do not form a reasonable basis for setting avoided capacity costs</u>; rather, the Company should be required to continue allocating capacity based on its historic seasonal capacity allocation, which acknowledges the clear evidence in the record that future capacity needs exist in both summer and winter seasons over the planning period.

b. <u>The Company has not optimized its plan</u>

Acknowledging the importance of these issues, FERC has addressed this very question of how utilities using the DRR method should incorporate their future capacity plans. FERC Order 69 clearly states that the evaluation of the difference between a plan with and without the QF must be done based on "the utility's optimal capacity expansion plan," and "[a]n optimal capacity expansion plan is the schedule for the addition of new generating and transmission facilities which, based on an examination of capital, fuel, operating, and maintenance costs, will meet a utility's projected load requirements at the lowest total cost." Federal Register, Vol. 45 No. 38, p. 12,216 n.6; *see also* Hearing Transcript at pp. E-211-212, p. E-212 at ln. 24-25 (Witness Lynch conceding that the Company did not use optimization software).

Company Witness Lynch agrees that the IRP should consider a range of resources. Hearing Transcript at p. E-213. He also notes that the Company makes additional showings of cost-effectiveness when it requests a certificate of convenience and public need (CPCN) from the Commission. Hearing Tr. at p. E- 199, lns. 20-24. However, as the IRP stands today, the Company concedes that it uses a simple spreadsheet model to compare generation resources – one that cannot be described as demonstrating an optimal, least cost generation plan. *Id*. at p. E-212. The Company does not use any optimization software or sophisticated modeling that could integrate various resources and select the optimal, least cost generation resources to meet future needs. *Id*. Lynch also concedes that he is not familiar with any other utility that uses an excel spreadsheet to determine its IRP capacity plan, as opposed to an optimization model such as Strategist, PROMOD, Midas, System Optimizer or AURURA. Multiple witnesses testify that SCE&G's aberrant approach is at odds with accepted industry practice, including the practice of other South Carolina utilities. *Id*. at p. E-209.

The Company admits that its spreadsheet actually analyzes only two resource options for meeting capacity needs in 2023: a peaking turbine and a combined cycle plant. Hearing Tr. at pp. E- 215-216. In response to a cross examination question about the Company's spreadsheet model, Witness Lynch states that "I think the heart of your point is, are you really moving around just combustion turbines and combined-cycles, and I'd say yes." *Id*. at pp. E-215 ln. 24 – E-216 ln. 1. The Company did not compare the cost effectiveness of these gas resources to market purchases of power, solar, energy efficiency, or battery storage. For some of these resources, the Company "baked in" a certain, pre-set amount (such as for winter demand-side management ("DSM")), but does not actually allow these resources to compete on cost against its selected 540 MW combined cycle. *Id*. The Company would also likely seek recovery of not only capacity costs related to these self-built generation additions, but also a guaranteed return on equity. *Id.* at p. E-217, ln. 8._Simply put, the Company has not demonstrated its resource plan to be "least cost," so under FERC Order 69, the resource additions in the 2018 IRP are not appropriate for the base case scenario that the Company uses to implement the DRR method. The Order does not appear to address this flaw, or to discuss how the Company's DRR method complies with FERC Order 69. Conservation Groups ask that the Commission disallow the Company from including speculative resource additions that have not been deemed least cost from SCE&G's avoided cost calculations.

c. Winter peak load forecast

The Company uses the DRR method to calculate avoided costs. This method compares results from a base case and a change case. The "base case" depends significantly on the Company's peak load forecasts and generation resources that will meet those peak load needs, both of which are taken from the 2018 IRP. As described by the Conservation Groups' Witness Glick, "SCE&G's near term energy forecasts have a significant impact on avoided energy and capacity costs by driving the need for generation capacity in its resource plans." Glick Direct Testimony at p. 13. Witness Glick testifies that "SCE&G's year-on-year increase in the near term forecasted peak load [in the 2018 IRP] reflects a dramatic increase in demand, as compared to prior years' forecasts. I am concerned that this near-term jump is driving long-term planning decisions at a significant cost to ratepayers without justification." Glick Direct Testimony at p. 13. The Company further points to its winter load forecast in an effort to justify its proposal to completely eliminate avoided capacity payments for solar power. This reliance is misplaced because the Company's winter peak load forecast is flawed.

ORS Witness Horii testifies to the flaws in the Company's winter peak load forecast, specifically regarding its overstated winter season peak demand variation. "[T]he implementation of [the Company's] method is flawed because SCE&G's determination of the winter season peak demand variation is overstated." Horii Direct Testimony at p. 11. Horii goes on to explain that "SCE&G uses regression equations to estimate what peak demand would be on SCE&G's system today given the weather that occurred on historical peak days since 1991. … The winter shape [from this regression equation] has an upward curve, which is counter to engineering-based expectations. This upward curve also exacerbates the variation in peak demand, compared to the downward curve of summer predictions." Horii Direct Testimony at p. 14. As described by Witness Horii, the Company's approach goes against engineering-based expectations because the load cannot increase indefinitely with no leveling off. Eventually, "as weather becomes more extreme, "cooling [or heating, depending on the season,] equipment because more heavily used, but eventually [will] top out and cannot increase electricity usage any further." Horii Direct Testimony at p. 14. "As individual units top out, one sees diminishing increases in load as temperatures worsen." *Id*. The Company has not accounted for this leveling off of equipment usage and load in its winter season load variation analysis. The result is "an overly large estimate of winter variability for the winter season compared to the summer season." *Id.* As a result of these flaws, we ask the Commission to reconsider its decision to allow the Company to rely on these unsubstantiated findings from the 2018 IRP in setting avoided cost rates.

d. <u>Winter reserve margin</u>

The Company's errors in its peak load variability calculations are compounded by the extremely high reserve margin of 21% that it now proposes to use for its winter season. The Company's flawed overestimate in winter peak load forecast and variability results in the Company seeking an overly aggressive winter reserve margin, to minimize the overstated risk of being unable to meet future winter peak loads. The reserve margin is much higher than comparable utilities in the Southeast, and it was calculated using the questionable component method that is not the industry standard. *See* ORS Witness Horii Direct Testimony at p. 11. The Company has the capability of using a more sophisticated, industry standard approach, but it declined to do so. In so doing, the Company has not only artificially limited avoided cost payments for QFs, but also seeks to add unneeded winter capacity generation that will increase costs for customers. Hearing Tr. at p. E-241.

A comparison of other winter reserve margins in the Southeast demonstrates that the Company's proposed reserve margin is unreasonable. Witness Glick testifies that "[r]egional peer utilities such as Duke and Southern Company use a different, more comprehensive methodology that balances physical reliability and customer costs." Glick Direct Testimony at p. 10. In contrast to the Company's proposed 21% reserve margin, Southern Company and Duke have 17% reserve margins, with the aim of "balanc[ing] reliability and cost minimization." Glick Direct Testimony at p. 11. Company Witness Lynch attempts to point to other regional examples of high winter reserve margins from PJM and a Florida utility. But ORS Witness Horii rebuts Lynch's efforts in surrebuttal, in particular pointing out that Lynch's statement is "misleading" and that the PJM figure cited by Lynch is not at all analogous to a reserve margin. Horii Surrebuttal Testimony at pp. 8-9.

SCE&G is capable of using a more sophisticated approach to determining its winter reserve margin. Indeed, the Company used a Loss of Load Probability Method in 2012. The Company even described the LOLP method as the "traditional and industry standard technique" in its 2013 IRP. Hearing Tr. at pp. E-240-241. Yet the Company unreasonably declined to use the LOLP method to inform its new reserve margin study.

Given the flaws in this winter reserve margin study, the Company has not met its burden of demonstrating that a 21% winter reserve margin is appropriate, and this study should not be allowed to inform avoided cost rates. While the Order acknowledges that the Company is using "a novel approach" to reserve margins that is "of significant importance in future fuel proceedings," it ultimately finds a 21% winter reserve margin to be reasonable. Order at 16. Conservation Groups respectfully take issue with the Commission's finding that this 21% winter reserve margin "has potentially adverse implications for certain types of generators going forward." *Id*. Rather, the facts in this proceeding are clear that this change adversely impacts solar QFs both now and in the future, because it forms the basis for the Company to shift to winter-peaking, zeroing out capacity payments for QFs in both the current year and for the entire 15-year contract period. Conservation Groups also point out that the Commission's finding that disagreements between Witness Horii and Witness Lynch on this issue "are not significantly different" is contradicted by the record. Order at 16. Rather, Company Witness Lynch admits that its proposed winter reserve margin is largely responsible for the Company's proposal to completely eliminate avoided capacity payments to QFs. Hearing Tr. at p. E- 201.

e. Inconsistency with avoided cost allocation and recovery paradigm

In addition to all of the problems underlying the Company's decision to zero out avoided capacity payments for QFs, the Order's acceptance of the Company's new winter peaking assertion is inconsistent and arbitrary when examined alongside its avoided cost allocation and recovery paradigm.

S.C. Code Ann. § 58-27-865(A)(1) provides that

> incremental and **avoided costs of** distributed energy resource programs and net metering as authorized and approved under Chapters 39 and 40, Title 58, [which] shall be allocated and recovered from customers under a separate distributed energy component of the overall fuel factor that **shall be allocated and recovered based on the same method that is used by the utility to allocate and recover variable environmental costs**.

As Company Witness Rooks testified for allocation and recovery of variable environmental costs and avoided cost allocation and recovery in this docket, "the Company uses the same four-hour-band Coincident Peak methodology that has been approved by this commission for over 30 years." Rooks Direct testimony at p. 6. He details that the summer 2016 peak was used to allocated DER costs during 2017, and summer 2017 peak was used to allocate DER costs during 2018-2019." *Id* at pp. 6-7.

The statute requires the "same method" to be used to recover both DER Avoided Costs and variable environmental costs, and the Commission has approved DER Avoided Cost recovery based this summer peaking paradigm. The Company seeks to allocate and recover costs based upon the assumption that the system peaks in the afternoon during the summer, but the Company's decision to zero out avoided capacity for QFs is

based on the assumption that the operative utility system peak (according to the Company) is on winter mornings.

Intervenors note that the Commission is the finder of fact, and must apply the law to those facts in a manner that is not arbitrary or capricious. Currently, SCE&G's variable environmental costs, avoided costs, and production costs recovered through the Company's base rates are all calculated based upon a 4-hour average summer peak. This appears completely at odds with the Company's assertion that its resource decisions and avoided cost payments for QFs must now be driven by winter peaks. If, as a matter of fact determined by the Commission, the Company is shifting to winter peaking (or some combination of summer and winter peaking), then the implications of the factual finding in this case may go well beyond avoided cost rates.

3. SCE&G's zero capacity payment violates PURPA.

FERC's regulations implementing PURPA are very clear: they state that "[e]ach electric utility **shall purchase**, in accordance with §292.304 . . . **any** energy and **capacity** which is made available from a qualifying facility." 18 C.F.R. § 292.303(a) (emphasis added). These rates must reflect the cost that the purchasing utility <u>**can avoid**</u> as a result of obtaining energy and capacity from these sources. 18 C.F.R. § 292.101(b)(6).

Order 69 acknowledges that different types of QFs may provide different capacity values, and it describes aggregating capacity for certain renewable QFs. While FERC indicated that a single intermittent QF might not permit the purchasing utility to avoid constructing or reserving capacity, "the aggregate capacity value of such facilities must be considered in the calculation of rates for purchases, and the payment distributed to the class providing the capacity." Order No. 69, *Small Power Production and Cogeneration Facilities; Regulations Implementing Section 210 of the Public Utility Regulatory Policies Act of 1978*, 45 FR 12214, 12225 (1980). FERC continued,

> Some technologies, such as photovoltaic cells, although subject to some uncertainty in power output, have the general advantage of providing their maximum power coincident with the system peak when used on a summer peaking system. The value of such power is greater to the utility than power delivered during off-peak periods. Since the need for capacity is based, in part, on system peaks, the qualifying facility's coincidence with the system peak should be reflected in the allowance of some capacity value and an energy component that reflects the avoided energy costs at the time of the peak.
> *Id*.

FERC has stated in past orders that an avoided cost rate need not include capacity costs where a QF does not "permit the purchasing utility to avoid the need to construct a generating unit, to build a smaller, less expensive plant, or to reduce firm power purchases from another utility." *City of Ketchikan, Alaska Copper Valley Elec. Ass'n, Inc.; City of Petersburg, Alaska; & City of Wrangell, Alaska*, 94 FERC ¶ 61293 (Mar. 15, 2001), *quoting* Order No. 69, FERC Stats. & Regs., Regs. Preambles 1977-1981 ¶ 30,128 at 30,865.

The Company has not demonstrated that it has met any of these preconditions for waiving its obligation to pay QFs for capacity. In fact, based on the record, the opposite is true: the Company concedes that it may **not** in fact build a combined cycle plant in 2023; that it **could** opt to invest in winter-peaking demand response programs that would alleviate winter peaks, allowing it to meet remaining summer capacity needs with solar

QFs. Hearing Tr. at pp. E-189-190. The Company appears to be attempting to rig its avoided cost methodology to reach its intended result: zeroing out capacity payments to its competitors, and justifying additional, and unnecessary, self-built capacity in future years. *See* Lynch Rebuttal p. 41, lns 19-21, p. 42, lns 1-2. Its changes to its winter reserve margin, winter peak load, capacity methodology, and QF pricing methodology all appear intended to meet this self-serving result. Clearly, SCE&G has not met its burden to demonstrate that solar QFs' capacity **cannot** be used to meet its "total system load." Order No. 69, FERC Stats. & Regs., Regs. Preambles 1977-1981 ¶ 30,128 at 30,870. Since a summer capacity need exists over the next 15 years, and because SCE&G has not **actually demonstrated** that QFs will not permit the utility to avoid building or buying future capacity, it has an obligation under PURPA to pay QFs fairly for the capacity that they provide. See also *Hydrodynamics Inc.*, 146 FERC ¶ 61193 (2014) (rejecting a utility's attempt to eliminate capacity payments for certain QFs where the utility failed to establish "any clear relationship to . . . actual demand for capacity").

Based on this clear statutory obligation under PURPA, we ask the Commission to reconsider its finding with respect to zero capacity payments, and find that the Company has not met its obligation to demonstrate that solar QFs cannot be used to meet future capacity needs.

4. SCE&G's zero capacity payment violates the 2014 NEM Settlement Agreement.

The Order's approval of the Company's zero value for avoided capacity violates the 2014 settlement agreement approved by this Commission. The NEM Settlement approved previously by this Commission in Order No. 2015-194, Docket No. 2014-246-E, requires an annual update to the calculation of "costs and benefits of net metering."

Order 2015-194 at p. 22, para. (g). The NEM Methodology includes eleven components and the settlement directs that the values for such components will be filled in as capabilities to reasonably quantify those components become available. Order 2015-194 at p. 20, para. (e). Regarding avoided capacity specifically, the settlement defines avoided capacity as the increase or reduction in fixed costs to the utility "of building and maintaining new conventional generation resources associated with the adoption of NEM." Order 2015-194 at p. 8. The Company's error of assigning net-metered DERs a zero capacity value is inconsistent with a plain reading of the settlement because it means that these NEM resources have no ability to avoid new capacity.

III. The Commission should find SCE&G has not met its burden, and adopt one of intervenors' alternative proposals.

For all of the reasons stated above, SCE&G has not met its burden to demonstrate that its avoided cost rates are reasonable. **Any of the alternative proposals put forward by intervening parties would be more appropriate than the Company's proposal, because they would better reflect the full capacity costs that QFs will allow the Company to avoid over the planning period.** These proposals, described below, are grounded in the record and the Commission is well within its authority to require the Company to implement them. Several of the proposals require the Company to recalculate its avoided capacity rates, which would provide a non-zero value for the PR-1 and PR-2 tariffs.[8]

- Maintain 2017 avoided capacity costs

[8] It is well within the Company's ability to do these recalculations and to update its PR tariffs. The Company has in the past requested to update its PR rates more frequently than annually, so there should be no hurdle to the Company updating its tariffs at the Commission's direction and pursuant to this petition for reconsideration.

ORS Witness Horii gave several recommendations in his direct testimony to address SCE&G's failure to provide an avoided capacity value. His primary recommendation is described in greater detail below, but he also testified that another option would be to retain the 2017 avoided capacity cost values for the PR-1 and PR-2 rates until the Company proposed reasonable avoided capacity rates. Witness Horii recommended "that the current capacity value be maintained for both PR-1 and PR-2 until a better capacity value can be provided in the next rate update." Horii Direct Testimony at p. 22. Given the myriad flaws in the Company's proposal in this year's fuel docket, Conservation Groups respectfully disagree with the finding in the Order that "[t]here is no evidence to demonstrate that maintaining such rates would be appropriate or that it would not result in SCE&G's customers having to pay for excessive avoided capacity costs." Order at 16. On the contrary, since the Company has failed to meet its burden to demonstrate the reasonableness of a change from last year's methodology, the more reasonable approach is to maintain last year's rate until such a change is deemed justified.

- Maintain 2017 avoided capacity cost method

This proposed alternative would require the Company to continue using its 2017 avoided capacity cost method, but update several of the inputs. This is the relief recommended in ORS and SBA's proposed orders. Under this option, SCE&G must provide an estimate of long-run avoided capacity costs and a calculation of long-run avoided capacity costs that reflects the methodology approved in prior proceedings, and then use these re-calculations to update the PR-1 and PR-2 rates. *See* ORS Proposed Order at 21, 32. SBA's Proposed Order provides additional detail on this alternative:

that, in its re-calculation of capacity payments, the Commission should require the Company to continue to use the 80% / 20% summer/winter capacity weighting approved in previous dockets; continue to follow an across-the-board 14% reserve margin policy; and continue to assign a 50% capacity factor to solar resources in its re-calculated rate. SBA Proposed Order at 17-18. Each of these elements of capacity costs have been approved by the Commission in prior orders, and the Company has not demonstrated that its proposed changes to any of these elements is justified.

The justification for this proposal is self-evident – since the Company has not met its burden to justify its proposed methodology changes in this docket, the Commission has the authority to rely on prior approved methodology, which it has already deemed reasonable, ensuring that QFs receive fair compensation between now and the Company's next fuel cost proceeding. SCE&G may propose additional changes at that time.

- Recalculate capacity payments using a 19.5% value

This proposed alternative, ORS Witness Horii's primary recommendation, would require the Company to recalculate capacity costs using 19.5% of the avoided cost of per kW from a 100 MW change to SCE&G's base resource plan that excludes any non-committed future resources and reflects any planned plant retirements of firm capacity. As described by Witness Horii, "[i]ncluding 19.5% of the avoided capacity value is based on SCE&G's solar analysis that found that a 100 MW increment of new solar would reduce summer peak demand by about 19.5 MW (Exhibit JML-4, p. 6)." Horii Direct Testimony at p. 21. This approach would provide credit to solar QFs for the value that they provide in avoiding summer capacity needs, rather than turning a blind eye to this capacity value as proposed by the Company. Witness Horii even provided an example of how this calculation would result in a tangible value to input into the PR tariffs: "For example, in Docket No. 2016-2-E, SCE&G estimated that the long run avoided capacity cost for a 100 MW change to be $21.34/kW-yr (Lynch direct testimony, p. 15). Applying the 19.5% factor would have resulted in an avoided capacity cost for solar of $4.16/kW-yr." *Id.*

Regardless of which alternative the Commission selects, there is no prejudice or harm to the Company in requiring it to re-calculate capacity costs now using a more appropriate method. SCE&G Witness Lynch admitted that the Company can perform revised avoided energy and capacity calculations "pretty quickly," and that it is "[n]ot too labor intensive." Hearing Tr. at E-33. In the same way that the Company proposed in the past to update its PR-2 rate in between fuel dockets to reflect changed circumstances, the Commission can and should require the Company to amend PR-2 now to better reflect full capacity costs avoided by QFs, and this updated rate should go into effect immediately following its review and approval by the Commission.

CONCLUSION

The Conservation Groups respectfully request that the Commission rehear or reconsider its Order as it relates to the issue of the Company's avoided capacity cost calculations and resulting rates in the PR-1 and PR-2 tariffs and 2018 NEM update. We would ask the Commission to clarify that the burden of proof is on the utility to prove that its proposed rates are reasonable, once the specter of imprudence is raised. In light of the Company's failure to meet this burden of proof and the significant problems with its proposals, we ask the Commission to disapprove the Company's Avoided Cost Tariffs PR-1 and PR-2 and the Company's 2018 NEM Rider to Retail Rates, and request that the Commission require the Company to make revisions that shall be filed within 30 days. Conservation Groups specifically request that the Commission issue an order requiring the Company to recalculate capacity costs consistent with the recommendation of ORS Witness Horii, using 19.5% of the avoided cost of per kW from a 100 MW change to SCE&G's base resource plan that excludes any non-committed future resources and reflects any planned plant retirements of firm capacity. As an alternative, Conservation Groups request that the Commission adopt one of ORS Witness Horii's alternative proposals to either maintain the avoided capacity rates approved in 2017 or to require the Company to use the Commission-approved 2017 avoided capacity cost method in its recalculation of capacity costs.

Respectfully submitted this 10th day of May, 2018.

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STATE OF SOUTH CAROLINA

BEFORE THE PUBLIC SERVICE COMMISSION

DOCKET NO. 2018-2-E

In the Matter of:	)	
	)	CERTIFICATE OF SERVICE
Annual Review of Base Rates for Fuel Costs for South Carolina Electric & Gas Company	)	

I hereby certify that the following persons have been served with the Petition for Rehearing or Reconsideration by electronic mail and/or U.S. First Class Mail at the addresses set forth below:

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This 10th day of May, 2018.
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